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Nos. 14-1513, 14-1520

Supreme Court of the United States

HALO ELECTRONICS, INC.,
Petitioner,

v.

PULSE ELECTRONICS, INC., PULSE ELECTRONICS CORP.,
Respondents.

STRYKER CORPORATION, STRYKER PUERTO RICO, LTD., AND STRYKER SALES CORPORATION,
Petitioners,

v.

ZIMMER, INC. AND ZIMMER SURGICAL, INC.,
Respondents.

ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF AMICUS CURIAE LICENSING EXECUTIVES SOCIETY (U.S.A. AND CANADA), INC. IN SUPPORT OF NO PARTY

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INTEREST OF *AMICUS CURIAE*

The Licensing Executives Society (U.S.A. and Canada), Inc. ("LES") is the global leader in the business applications of intellectual property ("IP") rights and their management, and it is devoted to standards development, education, and certification.[1] It is an independent, non-profit, professional society that promotes best practices in IP transactions, IP protection, and IP strategy. LES counts among its members lawyers as well as experts in the IP strategy, business management, accounting, business development, supplier management, program management, sales, marketing, and IP valuation fields. Among these are representatives of innovation oriented companies from all business

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[1] In accordance with Supreme Court Rule 37.6, LES states that this brief was not authored in whole or in part by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than LES and its counsel. Specifically, after reasonable investigation, LES believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter; (ii) no representative of any party to this litigation participated in the authorship of this brief; and (iii) no one other than LES, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief. Pursuant to Supreme Court Rule 37.3, Petitioners in both Case No. 14-1513 and Case No. 14-1520, as well as Respondents in Case No. 14-1513, have consented to this filing. Consent from Respondents in Case No. 14-1520 is submitted herewith.

sectors, government agencies, and university labs. LES is a community of approximately 4,000 IP management professionals, and it is part of a world-wide network (LES International or "LESI") of more than 9,000 IP management practitioners in 32 sister societies.

SUMMARY OF ARGUMENT

Before this Court are two consolidated cases, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, S.Ct. No. 14-1513 and *Stryker Corp. v. Zimmer, Inc.*, S.Ct. No. 14-1520, addressing the Federal Circuit's two-part *Seagate* test for, and *de novo* standard of review of, awards of enhanced damages under 35 U.S.C. § 284.

In their respective petitions for writ of certiorari, the Petitioners in these consolidated cases ask this Court to reject the current *Seagate* framework and *de novo* standard of review as contrary to legislative intent and inconsistent with this Court's precedent, particularly this Court's recent *Octane* and *Highmark* decisions. Petitioners assert that under the *Seagate* test, which they characterize as "rigid" and "inflexible," enhanced damages are almost impossible to attain, rendering § 284 superfluous.

In opposition to the petitions, Respondents assert that the current *Seagate* test and review standard are consistent with legislative intent and this Court's precedent. Respondents also argue that changing the standard for enhanced damages would increase variability in willfulness judgments and unfairly

force parties to settle under the threat of enhanced damages.

The parties have sufficiently addressed the legal issues surrounding the continued viability of the *Seagate* test and the appropriate standard of review. As a professional society dedicated to promotion of best practices in IP transactions, IP protection, and IP strategy, *amicus* Licensing Executives Society (U.S.A. and Canada), Inc. ("LES") might be particularly suited to assist the Court with evaluation of the practical impact of its decision in these consolidated cases.

Under an "Affirmed Status Quo" scenario, where the Court affirms the *Seagate* test and *de novo* review standard, the district courts will continue to apply a familiar and structured test, and the Federal Circuit will continue to uniformly review those decisions, sustaining predictability and consistency in this area of law. Parties' behavior and expectations, set by almost a decade of precedent, will remain undisturbed.

However, enhanced damages will remain difficult to attain under the Affirmed Status Quo scenario, potentially making them an unlikely threat to infringers. Knowing this, infringers might be incentivized to ignore or disregard patent rights with the risk of paying only lost profits or a reasonable royalty—and even then, only if the patent owner brings an expensive patent suit. Innovators might be dissuaded from pursuing patent protection or worse, from innovating in the first place, if they feel that patent remedies are inadequate to protect their inventions.

On the other hand, if the Court rejects the *Seagate* test in favor of a more flexible or holistic approach, and further orders that the application of this flexible approach be deferentially reviewed, a "Flexible and Deferential Approach" scenario would result. Under this scenario, the district courts would have the freedom to consider all pre- and post-suit conduct in deciding whether to enhance damages and the appellate court would be less likely to reverse those decisions. With an increased threat of enhanced damages, implementers of technology will give wide berth to patent rights, and might be incentivized to more readily take licenses to patents or settle patent disputes when they arise, better protecting patent rights.

Like the Affirmed Status Quo scenario, however, the Flexible and Deferential Approach scenario is not without faults. Opportunistic patent holders may seize upon and unfairly exploit the increased risk of enhanced damages, extorting unjust settlements. Implementers of technology might feel compelled to expend significant resources investigating patents or worse, avoid whole areas of technology altogether, potentially stifling innovation.

ARGUMENT

I. Brief Background on the Value of Patents and Patent Licensing

Patent rights are valuable. At a societal level, this value is recognized in the constitutional foundation of our Country's patent system: "The Congress shall have Power . . . To promote the

progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries . . . ." U.S. Const., art. I, § 8, cl. 8. The Founding Fathers believed that "ingenuity should receive a liberal encouragement." 5 Writings of Thomas Jefferson 75–76 (H. Washington ed. 1871). The strength of the patent system continues to be a significant public policy concern and is the focus of significant legislative activity. *See* STRONG Patents Act of 2015, S632, 114th Cong. (2015). A strong patent system encourages innovation, is essential to economic success, promotes the chances of success for small companies, provides jobs and economic revenue in patent-intensive industries and allows the United States to maintain its status as the world's innovation leader. *Id.* § 101.

The economic benefits of patent rights are indisputable. Intellectual property-intensive industries support 40 million jobs and contribute $5.06 trillion dollars to the U.S. economy, over one-third of U.S. gross domestic product. U.S. Dep't of Commerce, Intellectual Property and the U.S. Economy: Industries in Focus at vi-vii (2013).

The value of patents is rooted in the scope of the rights that they confer. At their core, patents confer a right to exclude others from, *inter alia*, making, using, offering to sell, selling or importing the patented inventions within the United States. *See* 35 U.S.C. § 271 (a) *et seq*.

One obvious way that innovators and patent owners can derive value from their patents is by excluding their competitors from practicing the

patented inventions, giving themselves a valuable edge in the marketplace. Another important way patent owners can derive value is by licensing their patented inventions to technology implementers.

Through such licensing, companies can extract tremendous value from their patents. It is reported that Microsoft and Ericsson generate more than $2 Billion in annual licensing revenue, and Qualcomm, regarded as a leader in patent licensing, reportedly generates more than $6.6 Billion in annual licensing revenue. *See* Terry Ludlow, *Trends In Technology IP Licensing*, IPO Law J., Dec. 10, 2014, at 4, *available at* http://www.ipo.org.

Private industry is not alone in deriving significant value from patents and patent licensing. According to the fiscal year 2014 survey by the Association of University Technology Managers ("AUTM"), there were over 5,400 new patent licenses executed by U.S. universities, hospitals and research institutions in fiscal year 2014 (an increase of 4.5% over 2013). AUTM, *Highlights of AUTM's U.S. Licensing Activity Survey*, FY2014, at 7, *available at* http://www.autm.net. The prior year's version of the AUTM survey cites to a study by the Biotechnology Industry Organization ("BIO"), which estimates the economic impact of university and nonprofit patent licensing from 1996 to 2010 was as much as $388 Billion on the U.S. gross domestic product and $836 Billion on the U.S. gross industrial output, while creating as many as 3 million jobs. AUTM, *Highlights of AUTM's U.S. Licensing Activity Survey*, FY2013, at 8, *available at* http://www.autm.net.

Patents, and the licensing thereof, are an important part of the United States economy. The promotion of strong patent rights is vital to the continued economic success of our nation. It is with this background that LES submits the following analysis of the possible practical outcomes of the Court's decision.

II. Enhancement of Damages Under the Current Framework

A. The *Seagate* Enhanced Damages Test and *De Novo* Standard of Review

The current framework for enhancement of damages was set forth in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*). There, the Federal Circuit found that its own precedent, and this Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964), required a showing of willful infringement for there to be an award of enhanced damages. *Id.* at 1368.

Having determined that willful infringement is a predicate for enhanced damages, the Federal Circuit reevaluated its prior standard for evaluating willful infringement as set forth in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). *Seagate* 497 F.3d at 1368-69. The *Underwater Devices* decision put potential infringers under an "affirmative duty to exercise due care to determine whether or not [they are] infringing." *Underwater Devices*, 717 F.2d at 1389-90. This affirmative duty required potential infringers to

obtain an opinion from counsel prior to initiation of infringing activity. *Id.* at 1390. According to the *Seagate* court, the *Underwater Devices* willful infringement standard was announced at a time "when widespread disregard of patent rights was undermining the national innovation incentive." *Seagate* 497 F.3d at 1369 (quoting *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (*en banc*)).

However, the *Seagate* court recognized that requiring accused infringers to rely on opinions of counsel as a defense to willful infringement presented many practical concerns related to the attorney-client privilege and work product doctrine. *Id.* Moreover, the Federal Circuit observed that the duty of care announced in *Underwater Devices* was more akin to a lower, negligence, standard than the recklessness standard for a finding of willfulness that was required by this Court's decision in *Safeco Ins. Co. of America v. Burr*, 551 U.S. 47 (2007). *Seagate* 497 F.3d at 1371.

Thus, the Federal Circuit reversed the *Underwater Devices* standard and held that willful infringement permitting enhanced damages required at least a showing of objective recklessness. *Id.* The *Seagate* court also emphasized that, because it abandoned the affirmative duty of due care, there is no affirmative obligation to obtain an opinion of counsel. *Id.*

To establish willful infringement, the *Seagate* court held, "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions

constituted infringement of a valid patent." *Id.* The infringer's state of mind is not relevant to this objective inquiry. *Id.* Only once the threshold objective standard is satisfied may a court consider the subjective state of mind of the infringer to determine whether the "objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." *Id.* The application of this standard was left to future cases.

One such "future case" was *Bard Peripheral Vascular, Inc. v. WL Gore & Associates, Inc.*, 682 F.3d 1003 (Fed. Cir. 2012). There, the Federal Circuit held that the *Seagate* threshold "objective determination of recklessness, even though predicated on underlying mixed questions of law and fact, is best decided by the judge as a question of law subject to *de novo* review." *Id.* at 1007.

B. Empirical Evidence Suggests that Enhanced Damages Are More Difficult to Attain Under the Current Framework

1. Evidence Shows that Enhanced Damages are Less Likely to be Awarded Under the *Seagate* "Objective Recklessness" Standard

The current willfulness framework was born from a then-prevailing belief that charges of willful infringement, and the satellite litigation that surrounded those questions, had become too

prevalent in patent litigation. *See Knorr-Bremse*, 383 F.3d at 1345 (explaining that the use of counsel opinions to refute willfulness charges had "occasioned extensive satellite litigation"); *see also* Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In re Seagate: An Empirical Study*, 97 Iowa L. Rev. 417, 428 (2012) (observing that *Seagate* was decided "[i]n the face of continuing criticism from academics and patent litigators, as well as legislative efforts to limit willfulness") (footnotes omitted). Many commentators predicted that *Seagate*'s "objective recklessness" standard would have a major impact on willfulness because it increased the patentee's burden of proving willfulness as compared to the prior, negligence-like standard of *Underwater Devices*. *See id.* at 431-32 (collecting articles).

In an empirical study of pre-*Seagate* patent infringement cases terminated during litigation from 1999-2000, then-Professor (now Federal Circuit Judge) Kimberly Moore found willfulness alleged in the originally-filed complaint in 92.3% of cases. Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227, 232 (2004) (herein, "Moore *Empirical*"). Judge Moore's study also considered a broader set of pre-*Seagate* cases tried from 1983 to 2000 and observed that willfulness was found in 67.7% of jury trials and 52.6% of bench trials that reached the question. *Id.* at 237; *see also* Kimberly A. Moore, *Judges, Juries, and Patent Cases—An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365, 390 & tbl.4 (2000) (herein, "Moore *Judges*") (determining that

willfulness was found 63.8% of the time it was decided from 1983-1999). Judge Moore observed that "[w]illfulness was only decided if and when the case went to trial. . . .[w]illfulness was never decided on summary judgment." Moore *Empirical*, *supra*, at 234. Regarding her finding that willfulness was almost always (92.3% of the time) alleged in pre-*Seagate* patent cases, Judge Moore remarked "[t]hese results suggest that willfulness claims are plaguing patent law." *Id.* at 232.

Following up on Judge Moore's work, Professor Christopher Seaman evaluated willfulness cases before and after *Seagate* to determine if *Seagate*'s "objective recklessness" standard had an impact on willfulness. *See* Seaman, *supra*, at 431-32. His findings indicate that *Seagate* did have a measurable impact on findings of willfulness in patent cases.

First, whereas Judge Moore observed that willfulness was never decided on summary judgment in the 1999-2000 era, Professor Seaman's study found that willfulness is more likely to be disposed of on a pre-trial motion post-*Seagate*. *Id.* at 440.

Second, whereas Judge Moore determined that willfulness was found 63.8% of the time it was decided from 1983-1999, Professor Seaman saw this rate drop to 48.2% in the three years leading up to *Seagate*[2] and drop further to 37.2% in the three years after *Seagate*. *Id.* at 444.

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[2] Professor Seaman hypothesized that the first, pre-*Seagate*, drop in willfulness findings was due to the Federal Circuit's decision in *Knorr-Bremse*, *supra*, which eliminated the

(Continued ...)

Third, whereas Judge Moore observed that willfulness was found in 67.7% of jury trials and 52.6% of bench trials that reached the issue, Professor Seaman saw those numbers drop to 53.9% and 18.5%, respectively. *Id.* at 444-45.

The drop in judicial findings of willfulness (from 52.6% pre-*Seagate* to 18.5% post) was the most prominent post-*Seagate* change. Professor Seaman attributes part of this result to a post-*Seagate* increase in district court decisions granting motions for JMOL on willfulness; all pre-verdict JMOL decisions in the post-*Seagate* era he studied found no willfulness. *Id.* at 445. Another factor leading to this drop in judicial findings of willfulness is federal judges' heightened understanding (particularly when compared to jurors) that "objective recklessness" under *Seagate* requires a higher degree of culpability than the negligence-like standard of *Underwater Devices*.[3] *Id.* at 446.

From the above empirical observations, it appears that *Seagate*, and its changing of the willfulness standard from a negligence-like "affirmative duty to exercise due care" to one of "objective recklessness," did impact the determination of willfulness, making

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adverse inference that previously attached to an accused infringer's failure to obtain or disclose an opinion of counsel. Seaman, *supra*, at 444.

[3] Jurors' lack of understanding of the post-*Seagate* willfulness standard might be compounded by the complexity of the model patent jury instructions on willfulness. *See* Seaman, *supra* at 447-48.

an award of enhanced damages less likely post-*Seagate*.

2. Evidence Also Suggests that the *De Novo* Standard of Review Makes Enhanced Damages More Difficult to Maintain on Appeal

Much the same as the *Seagate* "objective recklessness" threshold framework might make enhanced damages difficult to attain at the trial court level, the *de novo* standard of appellate review applied to those decisions might make any findings of willfulness difficult to maintain on appeal.

As discussed above, the empirical evidence tends to show that, post-*Seagate*, judges are much less likely than juries to find willfulness (juries find willfulness 53.9% of the time and judges find it 18.5% of the time). *See* Section II.B.1., *supra* (citing Seaman, *supra*). Part of this disparity is because judges better appreciate, and therefore are more influenced by, the import of the *Seagate* "objective recklessness" threshold. *See id.*

In his study, Professor Seaman also considered the rates at which findings of willfulness resulted in enhanced damages, both pre-*Seagate* and post.[4] *See*

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[4] Under *Seagate*, the award of enhanced damages is within the discretion of the district judge, but only after either the judge or jury makes a finding of willfulness. *See Seagate*, 497 F.3d at 1368; 35 U.S.C. § 284 ("[T]he court may increase the damages up to three times the amount found or assessed.").

Seaman, *supra*, at 464. He found that willfulness resulted in enhanced damages 81.4% of the time pre-*Seagate* and dropped significantly, to 54.9% of the time, after *Seagate*. *Id.* at 466.

Professor Seaman further considered if the rate of award of enhanced damages depended on whether the judge or jury found willfulness. *Id.* at 466-67. When judges find willfulness, the rate at which enhanced damages were awarded was consistent before and after *Seagate* (at 85.7% and 87.5%, respectively). *Id.* at 467. However, when juries find willfulness, the rate at which enhanced damages were awarded dropped significantly, from 80.6% to 48.8%. *Id.*

This data suggests that district court judges are withholding awards of enhanced damages as a check on weak or questionable jury findings of willfulness. *See id.*; *see also* Moore *Judges*, *supra*, at 394 ("[Data indicates] that judges function as a check to temper jury findings on willfulness—or that judges simply give themselves more credit in terms of the likelihood that the willfulness decision is correct."). Thus, not only are judges themselves less likely to find willfulness post-*Seagate*, they are less likely to award enhanced damages when juries find willfulness post-*Seagate*.

Therefore, just as district judges' decreased propensity to find willfulness post-*Seagate* at least partially results from their understanding of *Seagate*'s heightened "objective recklessness" threshold, *see* Section II.B.1., *supra*, district judges' increased propensity to nullify jury findings of willfulness through withholding of enhanced

damages might also result from their understanding of *Seagate*. *See id.*; *see also* Seaman, *supra*, at 445-46, 467.

Given the district judges' tendency to veto the jury's willfulness findings based on their understanding of *Seagate*, it is not a far leap to assume that the Federal Circuit judges are equally inclined to veto the district judges under the *de novo* review standard applied to the threshold "objective determination of recklessness." *See Bard*, 682, F.3d at 1007. Indeed, Petitioners observe that the *de novo* standard has just such an impact in willfulness decisions. *See* Petition for a Writ of Certiorari, *Stryker Corp. v. Zimmer, Inc.*, S.Ct. No. 14-1520, at 34-37 (June 22, 2015) (herein, "Stryker Petition") (asserting that the non-deferential, *de novo* standard ignores the district court's perspective and case familiarity); *see also id.* at 27 (observing that "the Federal Circuit regularly affirms on validity but reverses on willfulness").

Thus, based on the foregoing, it appears that enhanced damages are difficult to attain under the current, *Seagate* framework. It also appears that, even if enhanced damages were awarded, such awards might be imperiled on appeal under the current *de novo* standard of review for the objective prong of the willfulness inquiry.

III. Affirming the *Seagate* Enhanced Damages Framework Might Encourage Predictable and Consistent Results

Proponents of the current willfulness framework might assert that *Seagate* has brought greater

predictability and consistency to the determination of willfulness. First, proponents might argue that technology implementing and commercializing companies are able to make business decisions more efficiently when they are relieved of the unpredictable pre-*Seagate* "duty of due care." Second, proponents might assert that the current framework increases consistency in willfulness findings amongst the district courts, decreasing the incentive for disfavored forum shopping.

A. Implementers of Technology Might be Able to Operate More Efficiently Under the Current *Seagate* Standard

Prior to the current, *Seagate* standard, implementers of technology were under an "affirmative duty to exercise due care to determine whether or not [they are] infringing." *Underwater Devices*, 717 F.2d at 1389-90. Part of this "affirmative duty" was the "duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity." *Id.* at 1390 (emphasis in original).

This "affirmative duty to exercise due care" and, in particular, the obligation to obtain an opinion of counsel, proved to be onerous for technology implementers in the *Underwater Devices* era.

For example, concerns over a potential "adverse inference," that attached if an accused infringer failed to obtain or failed to disclose an opinion of counsel, persisted for many years. *See Knorr-Bremse*, 383 F.3d at 1343-44, 1345 (discussing and

then rejecting the "adverse inference" rule). And, when an accused infringer did choose to rely on an opinion, there were concerns as to the scope of the privilege and work product waiver that resulted. *See In re EchoStar Commc'ns Corp.*, 448 F.3d 1294, 1304 (Fed. Cir. 2006) (finding waiver reached "any document or opinion that embodies or discusses a communication to or from it concerning whether that patent is valid, enforceable, and infringed by the accused").

Thus, companies operating in the *Underwater Devices,* "due care," era faced an incredibly difficult choice between waiving the sacred attorney-client privilege or else potentially facing enhanced damages. *See Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643 (Fed. Cir. 1991) (explaining the "the dilemma of an accused infringer who must choose between the lawful assertion of the attorney-client privilege and avoidance of a willfulness finding if infringement is found").

In light of these concerns, some questioned the appropriateness of the "affirmative duty to exercise due care." Summarizing many of the then-prevailing complaints about the "due care" duty, Federal Circuit Judge Dyk observed:

> [T]he due care requirement has fostered a reluctance to review patents for fear that the mere knowledge of a patent will lead to a finding of lack of due care; a cottage industry of window-dressing legal opinions by third party counsel

> designed to protect the real decision-making process between litigating counsel and the company's executives; the imposition of substantial legal costs on companies seeking to introduce innovative products; and an enhanced ability of holders of dubious patents to force competitors' products off of the market through the threat of enhanced damages.

Knorr-Bremse, 383 F.3d at 1351 (Dyk, J., concurring in part and dissenting in part) (citations omitted); *see also id.* at 1345 ("The *amici curiae* describe the burdens and costs of the requirement, as pressed in litigation, for early and full study by counsel of every potentially adverse patent of which the defendant had knowledge . . . .").

Among the concerns listed by Judge Dyk was reluctance by companies to review patents. *See id.* at 1351 (Dyk, J., concurring in part and dissenting in part). If companies did indeed actively avoid reviewing patents—which are meant to inform the public of inventions in exchange for limited exclusivity—the entire purpose of the patent system is undermined. *See FTC, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 5, at 28-31 (2003) ("[P]anelists raised a separate problem: fear of willfulness charges discourages inventors from reading others' patents, thereby undermining the disclosure function of the patent system.").

Recognizing these concerns and the "functional relationship between [its] willfulness jurisprudence and the practical dilemmas faced in the areas of attorney-client privilege and work product protection," the *en banc Seagate* court abandoned the "affirmative duty of due care" and "reemphasized that there is no affirmative obligation to obtain opinion of counsel." *Seagate* 497 F.3d at 1367, 1371.

Implementers of technology operating in the post-*Seagate* era are no longer obligated to obtain costly, "window-dressing," opinions, freeing capital and resources to be spent elsewhere. *See Knorr-Bremse*, 383 F.3d at 1351 (Dyk, J., concurring in part and dissenting in part). This can be particularly important in crowded technology areas where the expense of vetting all potentially applicable patents can be overwhelming. *See* Moore *Empirical*, *supra*, at 228 n.5 (estimating the cost of opinions to be between $5,000 and over-$100,000 *per patent*).

Likewise, technology implementers no longer have to anguish over the decision to waive their attorney-client privilege by introducing an opinion of counsel post-*Seagate*. *See* Seaman, *supra*, at 451-52 & tbl.5 (finding no statistically significant difference in willfulness outcomes based on opinions of counsel post-*Seagate*); *see also* 35 U.S. Code § 298 ("The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.").

Freed of the "due care" mandate that they obtain attorney opinions as a matter of course, technology implementers can be more selective, and therefore efficient, in their due diligence efforts. For example, some have remarked:

> [T]he affirmative duty of care is not necessary to encourage reasonable, risk-adverse parties to conduct careful infringement analyses. Most prudent manufacturers have a strong commercial incentive to investigate whether a planned product would infringe on another's patent prior to launch, so as to avoid relinquishing any profits in the form of compensatory damages as well as lost investment in wasted development, marketing, and legal expenses.

Brief of *Amicus Curiae* on Behalf of Fédération Internationale des Conseils en Propriété Industrielle in Support of Neither Party, *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (Misc. No. 2006-830),

Moreover, with the decreased likelihood of enhanced damages in the post-*Seagate* era, *see* Section II.B., *supra*, technology implementers may be less concerned about unfair "patent hold up" from opportunistic patent owners. *See* Scott Baker, *Can the Courts Rescue Us from the Patent Crisis?*, 88 Tex. L. Rev. 593, 598 (2010) ("The patent holdup waits until a firm or group of firms has sunk resources into developing a product that arguably infringes its

patent. It then sues and uses the threat of a punitive remedy, either injunctive relief or treble damages for willful infringement, to extract a settlement that exceeds what it would have gotten if it licensed its patent *ex ante*.").

Therefore, proponents of the current willfulness framework might assert that *Seagate* brought efficiency and certainty to the law of willfulness and enhanced damages under § 284.

B. Through Increased Consistency Amongst the District Courts, the Current Framework May Dissuade Forum Shopping

Proponents of the current, *Seagate* standard might also assert that post-*Seagate* changes in willfulness outcomes, both the empirical ones measured above and other anecdotal observations, have yielded greater predictability to the determination of willfulness. Indeed, while allegations of willfulness remain consistently high post-*Seagate*, *see* Seaman, *supra*, at 442-443 & n.166, the likelihood of being liable for willful infringement has noticeably decreased. *See* Section II.B., *supra*. This is particularly true when questions of willfulness are decided by judges who understand the significance of the *Seagate*, "objective recklessness" standard (as opposed to jurors who take a less-nuanced, "right" or "wrong" view). *See id.*; *see also* Moore *Judges*, *supra*, at 393 (hypothesizing that juries find willfulness significantly more often than judges because "juries are more easily persuaded than judges by 'bad guy' evidence").

When one considers that it is district court judges whose decisions are most impacted by the legal standard for willfulness, concerns over variability amongst different districts become important. In a study of tried pre-*Seagate* cases from 1983 to 1999, Judge Moore observed that the rates patent owners prevailed on the question of willfulness ranged from a high of 85% in the Northern District of Illinois to a low of 42% in the District of Massachusetts. *See* Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 919 & tbl.10 (2001) (herein, "Moore *Forum*").

Professor Seaman analyzed willfulness decisions during a period of September 2004 to July 2010 (covering a period post-*Knorr-Bremse* (2004) and approximately three years on either side of *Seagate*, (2007)) and found that the rates of willfulness findings varied from a high of 52.3% in the Eastern District of Texas to a low of 27.3% in the District of Minnesota. Seaman, *supra*, at 451.

While the overall success rate for patent holders has decreased post-*Seagate*, as observed above, there remains quite a bit of variability from district to district. Some have suggested that this variability might lead to "forum shopping" by patent holders seeking their best odds on willfulness. *See* Moore *Forum*, *supra* at 919 ("It is likely that some combination of factors led parties to select particular jurisdictions . . . .").

Thus, if forum shopping is not eliminated by the *Seagate* willfulness standard, then it might at least be tempered by the *de novo* standard of review

applied to the objective prong of the *Seagate* analysis. *See Bard*, 682 F.3d at 1007.

Prior to creation of the Federal Circuit, there were circuit splits on various patent-law issues, with certain circuits perceived as "pro-patent" and others as "anti-patent," resulting in much forum shopping. *See* H.R. Rep. No. 97-312, at 20-21 (1981). Forum shopping was found to increase litigation costs, decrease the ability to advise clients, and "demean[] the entire judicial process and the patent system as well." *Id.* at 21. Thus, the Federal Circuit was created to "provide nationwide uniformity in patent law," "make the rules applied in patent litigation more predictable," and "eliminate the expensive, time-consuming and unseemly forum-shopping that characterizes litigation in the field." *Id.* at 20.

The non-deferential *de novo* standard of review allows the Federal Circuit to uniformly apply the objective prong of the *Seagate* willfulness standard (which, as mentioned above, is more readily understood by judges than juries) to decisions issuing from the various district courts.

Thus, proponents of the current willfulness framework may assert that the increased uniformity from *de novo* review results in desirable outcomes such as more predictability, less expense and less forum shopping in the context of willfulness outcomes. *See id* at 21.

IV. Creating a More Flexible and Deferential Enhanced Damages Framework Might Deter Undesirable Behavior and Better Protect Inventions

A. Making Enhanced Damages More Attainable Might Increase their Deterrent Effect

As a form of punitive punishment, enhanced damages are meant to both deter undesirable behavior and, in appropriate circumstances, punish bad behavior. *See Aro Mfg. Co.*, 377 U.S. at 508 (1964) (explaining that the patentee "could in a case of willful or bad-faith infringement recover punitive or 'increased' damages under the statute's trebling provision"); *see also Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1126 (Fed. Cir. 1987) ("The role of a finding of 'willfulness' in the law of infringement is partly as a deterrent — an economic deterrent to the tort of infringement . . . ."). It appears that as the attainability of enhanced damages changed over time, so too did their deterrent effect.

Prior to *Underwater Devices* in 1983, there was "widespread disregard of patent rights [that] was undermining the national innovation incentive." *Knorr-Bremse*, 383 F.3d at 1343. Indeed, the *Underwater Devices* court observed that the accused infringer's attorney advised his client to "continue to refuse to even discuss the payment of a royalty with" the patent holder because "[c]ourts, in recent years, have — in patent infringement cases — found the patents claimed to be infringed upon invalid in approximately 80% of the cases." *Underwater Devices*, 717 F.2d at 1385. The attorney thus advised

his client to ignore the patent holder until his client was sued, stating "[i]f they do elect to sue us, then we can consider negotiating a royalty based on what it might cost us to try the suit." *Id.*

Thus, it was "[o]n this record of flagrant disregard of presumptively valid patents without analysis," that the *Underwater Devices* court announced the requirement that implementers of potentially-patented technology exercise an "affirmative duty to exercise due care to determine whether or not [they are] infringing". *Knorr-Bremse*, 383 F.3d at 1343 (citing *Underwater Devices*, 717 F.2d at 13889-90).

The "affirmative duty," post-*Underwater Devices*, era lasted from 1983 until *Seagate* was decided in 2007. *See Seagate*, 497 F.3d at 1371 (overruling *Underwater Devices* and expressly abandoning the affirmative duty of due care).

As described above, the affirmative duty of due care significantly impacted the behavior of companies seeking to implement potentially-patented technology. *See* Section III.A.1., *supra*. Rather than "flagrantly disregard" patent rights, as might have been done prior to *Underwater Devices*, *see Knorr-Bremse*, 383 F.3d at 1343, technology implementers invested significant money and resources into investigating patents. *See* Section III.A.1., *supra*.

In the current, post-*Seagate* era, implementers of potentially-patented technology are no longer under any affirmative duty of due care. *See Seagate* 497 F.3d at 1371. Rather, liability for enhanced damages

would be determined based upon a threshold showing of "objective recklessness." *Id.*

As may be seen from the empirical evidence cited above, enhanced damages under 35 U.S.C. § 284 appear more difficult to attain under the current *Seagate* framework. *See* Section II.B., *supra.* Whereas the rate of success for decided willfulness accusations was as high as 63.8% pre-*Seagate*, it dropped to 37.2% after *Seagate*. *See id.* Also, to the extent the willfulness question is decided by a judge, who better understands the legal implications of the "objectively reckless" *Seagate* threshold, the chance of success on a decided willfulness accusation is halved to just 18.5%. *See id.*

Petitioners' anecdotal observations go somewhat further than this empirical data, asserting that the Federal Circuit's *Seagate* standard renders § 284 "largely superfluous" and enhanced damages "largely unattainable." *See* Petition for a Writ of Certiorari, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, S.Ct. No. 14-1513, at 18 (June 22, 2015) (herein, "Halo Petition") ("[T]he Federal Circuit has interpreted § 284 so narrowly that it forbids district courts from enhancing damages even in cases of bad faith infringement, so long as the defendant presents a non-sham trial defense, rendering § 284 'largely superfluous.'"); Stryker Petition at 21 ("The Federal Circuit's rigid and inflexible willfulness framework is so demanding that 'it renders enhanced damages under §284 largely unattainable."). When viewed along with the empirical evidence discussed above, Petitioners' concerns are understandable.

Petitioners assert that one key flaw of the current enhanced damages framework is that it permits *post-hoc*, litigation-contrived defenses to be exculpatory of willfulness, irrespective of the infringer's pre-suit conduct. *See, e.g.*, Halo Petition at 2 ("[D]istrict courts are now unable to impose enhanced damages if a defendant presents a non-frivolous defense, even if it acted in bad faith before the suit by copying the patentee's product, ignoring offers to license, and failing to investigate or develop any pre-suit defense."); Stryker Petition at 3 ("The Federal Circuit's current willfulness framework undermines the intended deterrent effect of § 284 by immunizing infringers from enhanced damages so long as they present at least one plausible defense at the post-trial appellate stage.").

The empirical evidence lends credence to Petitioners' assertions. Professor Seaman's study evaluated several factors identified as relevant to willfulness findings after *Seagate*: whether the infringer proffered an opinion of counsel; whether the infringer proffered a "substantial defense" during litigation; whether there was evidence that the infringer copied the patented technology; whether the infringer made attempts to design around the patent; whether the patent was subject to reexamination by the Patent Office; and whether the proceedings were bifurcated. Seaman, *supra*, at 451-52.

The two most impactful factors were evidence of copying and proffer of a "substantial defense."[5] *Id.* at 452. Professor Seaman found that evidence of copying was highly correlated with a finding of willfulness and that a "substantial defense to infringement" was highly correlated with a finding of no willfulness.[6] *Id.*

Though the empirical evidence indicates that both copying and "substantial defenses" are highly correlated to findings of willfulness and no willfulness, respectively, the two factors do not necessarily cancel each other out. This is because "substantial defenses" are evaluated during the threshold, objective prong of the *Seagate* analysis, and evidence of copying is relegated to the secondary, subjective prong. *See Seagate*, 497 F.3d at 1371. Under this tiered construct, evidence of copying, highly correlated to a finding of willfulness, will not be considered unless there is insufficient evidence of "substantial defenses."

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[5] The "substantial defense" cases were those where there had been an explicit determination by the fact finder that a defense, though unsuccessful, was "substantial," "legitimate," or "credible." Seaman, *supra*, at 455-56.

[6] The remaining factors, including proffer of an opinion of counsel and attempts to design around, had no statistically significant impact on findings of willfulness. Seaman, *supra*, at 452.

Thus, the current framework's objective threshold inquiry might have the combined effect of both amplifying the exculpatory nature of "substantial defenses" and suppressing the incriminating nature of copying and other bad-faith acts. *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 780 F.3d 1357, 1362 (Fed. Cir. 2015) (O'Malley, J., joined by Hughes, J., dissenting) ("We have gone so far, moreover, to require that an evidentiary wall be erected between the objective and subjective portions of the inquiry. We preclude considerations of subjective bad faith—no matter how egregious—from informing our inquiry of the objective baselessness of a claim and preclude the weakness a claim or defense from being indicative of a parties' subjective bad faith.").

One reasonable conclusion from the foregoing is that enhanced damages are not an effective deterrent under the current framework. Indeed, some would argue that when the focus of the inquiry is on post-suit justifications, rather than pre-suit conduct, technology implementers are not incentivized to modify their conduct by the threat of enhanced damages. If true, this would be most undesirable from a policy perspective.

Thus, a more flexible enhanced damages framework, one that considers both pre- and post-infringement conduct, might much better accomplish the deterrent purpose of enhanced damages. Moreover, a more deferential review of enhanced damages awards might give district court judges more flexibility to shape outcomes to the needs of a particular case.

B. Inventions Might Be Better Protected Under a Stronger Enhanced Damages Framework

As discussed above, patent rights are valuable to both society as a whole and to the patent holders who own and license them. *See* Section I, *supra*. At a societal level, our patent system encourages innovation and furthers our nation's economic success. *See id.* At a patent-owner level, patents give their owners a competitive market edge or a potential licensing revenue stream. *See id.*

However, patents are only as valuable as the exclusion rights that they confer and, as a corollary, the respect with which they are treated. *See id.* When patents are given little respect, they afford less value.

For example, as discussed above, the accused infringer in *Underwater Devices* was advised that because there was an 80% chance the patent might be invalidated during litigation, it should refuse to even engage in licensing discussions with the patent holder. *Underwater Devices*, 717 F.2d at 1385. Only if the accused infringer was sued was it advised to negotiate a royalty—one based only on the cost of the litigation, not the value of the technology. *Id.*

Not only did the *Underwater Devices* infringer's conduct fly in the face of the presumed validity of patents, *see* 35 U.S.C. § 282 (a), but it epitomized the "flagrant disregard of presumptively valid patents without analysis" abound at a time "when widespread disregard of patent rights was

undermining the national innovation incentive." *Knorr-Bremse*, 383 F.3d at 1343.

Thus, without an effective deterrent to the type of "flagrant disregard" found in *Underwater Devices*, patent rights might be devalued. Free riders, such as the infringer there, can avoid even discussing a license unless and until they are sued by the patent owner.

However, as both infringers and patent holders well know, patent suits are expensive. According to the American Intellectual Property Law Association's ("AIPLA") 2015 Report of the Economic Survey, the median cost of a patent infringement suit with more than $1 Million at risk ranges from $2 Million to more than $5 Million. Am. Intellectual Prop. Law Ass'n, *AIPLA Report of the Economic Survey*, 37 (2015).

Even if the patent owner does bring an expensive lawsuit, without a credible threat of enhanced damages, an accused infringer knows that if it loses, it might only have to pay lost profits (at worst) or have to pay a "reasonable royalty." *See* 35 U.S.C. § 284. However, the widely-adopted *Georgia-Pacific* reasonable royalty framework assumes a "hypothetical negotiation" between a "willing licensor" (the patent owner) and a "willing licensee" (the infringer), at the time the infringement began. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1121 (S.D.N.Y. 1970).

Therefore, without the threat of enhanced damages, the infringer who disregards patents, refuses to negotiate licenses, and takes its chances in

court, might wind up in a no worse position than if it had negotiated a license in the first place—presuming the patent owner can afford to pursue him that far. Some might characterize such a scenario as a disfavored type of "compulsory license."

> The setting of a reasonable royalty after infringement cannot be treated, as it was here, as the equivalent of ordinary royalty negotiations among truly "willing" patent owners and licensees. That view would constitute a pretense that the infringement never happened. It would also make an election to infringe a handy means for competitors to impose a "compulsory license" policy upon every patent owner.

Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152 (6th Cir. 1978).

Faced with such grim prospects, innovators might become dissuaded from investing in research and development. Or, even if they continue to innovate, they might eschew the patent system all together, keeping their discoveries for themselves. Such behavior would undercut one of the fundamental purposes of our patent system—to enrich public knowledge. *See Wellman, Inc. v. Eastman Chem. Co.*, 642 F. 3d 1355, 1360 (Fed. Cir. 2011) (referencing the "statutory bargained-for-exchange" by which a patentee obtains the right to exclude others for a certain time period and the "public

receives knowledge of the preferred embodiments for practicing the claimed invention") (quotation omitted).

However, a stronger enhanced damages framework that creates a credible threat of enhanced damages might dissuade such hold-out tactics by technology implementers. Technology implementers might be more readily brought to the negotiation table, avoiding the burden and expense of litigation for both parties. If forced, innovators might be more inclined to defend their patent rights in court if the potential for enhanced damages made the expense of litigation more justifiable. And if sued and credibly threatened with enhanced damages, an accused infringer might be encouraged to rationally evaluate settlement opportunities early and often.

Thus, a stronger enhanced damages framework might better protect patented inventions and encourage continued innovation.

CONCLUSION

As can be seen from the above, this Court's decision will almost certainly have an important impact on the rights and behavior of both patent holders and implementers of technology. The Court must weigh the burden, expense and uncertainty that a more liberal enhanced damages framework might place on technology implementers against the need to protect and reward innovation through a strong and robust patent system.

Respectfully submitted,

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